

Message Text

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ACTION OES-07

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R 092144Z MAR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 6591
AMCONSUL TORONTO

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DEPARTMENT FOR EUR/CAN; OES/NET; TORONTO FOR CANTWELL

DEPARTMENT PLEASE PASS DOE FOR SIEVERING AND NININGER

E.O. 11652: N/A
TAGS: ENRG, CA
SUBJECT: CANADIAN POLICY ON URANIUM EXPORT

1. THE CONTRACTS WITH DENISON MINES AND PRESTON MINES (RIO ALGOM) TO SUPPLY URANIUM TO ONTARIO HYDRO REPRESENT THE LARGEST AND LONGEST-TERM SALE TO DATE IN HISTORY.
2. THE CONTRACTS CALL FOR THE DELIVERY OF 200 MILLION POUNDS OF URANIUM OVER A PERIOD OF 32-37 YEARS. THE PRICE IN EACH CASE WILL BE BETWEEN AN ESCALATING FLOOR PRICE AND THE "WORLD MARKET PRICE."
3. THE SIZE AND LONG TIME PERIOD OF THE ORDER HAVE RAISED QUESTIONS ABOUT ITS IMPACT ON FUTURE CANADIAN URANIUM EXPORT POLICY.
4. SCICOUNS MET WITH GOC URANIUM EXPERTS, O.J.C. RUNNALLS AND H. MERLIN, BOTH OF DEPARTMENT OF ENERGY, MINES AND UNCLASSIFIED

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RESOURCES (EM&R), ON MARCH 3, 1978, TO DISCUSS THIS IMPACT.

5. ACCORDING TO RUNNALLS AND MERLIN, THIS SALE CAN BE ACCOMMODATED WITHIN CURRENT EXPORT POLICY ALTHOUGH THE POSSIBILITY OF ESTABLISHING A URANIUM MARKETING BOARD FOR THE GOC TO CONTROL FUTURE SALES IS NOT FORECLOSED.

6. PERTINENT ELEMENTS OF THE CURRENT GOC URANIUM EXPORT POLICIES ARE THE FOLLOWING:

-----A. SUFFICIENT URANIUM MUST BE RETAINED, IN RESERVES, TO FUEL PRESENT, PLANNED, AND TEN-YEAR FORWARD PROJECTED NUCLEAR POWER STATIONS FOR A PERIOD AT THAT TIME OF 30 YEARS, OPERATING AT A CAPACITY FACTOR OF 80 PERCENT.

-----B. THE AMOUNT OF URANIUM TO BE HELD IN RESERVE FOR DOMESTIC USE IS ALLOCATED TO EACH CANADIAN PRODUCER BASED UPON THE RATIO OF ITS URANIUM RESOURCES TO THE TOTAL CANADIAN RECOVERABLE RESOURCES FROM ALL SUCH COMPANIES, AS ESTIMATED BY THE URANIUM RESOURCE APPRAISAL GROUP (URAG). (THE URAG IS ESTABLISHED WITHIN THE DEPARTMENT OF ENERGY, MINES AND RESOURCES AND UPDATES ITS ESTIMATES ANNUALLY). THE RESOURCES TO BE HELD IN RESERVE BY THE COMPANIES FOR DOMESTIC USE AVERAGE 21.5 PERCENT OF THEIR TOTAL RESOURCES, AT PRESENT.

-----C. URANIUM IN EXCESS OF THE DOMESTIC RESERVE MARGIN MAY BE SOLD ABROAD. HOWEVER NO CANADIAN PRODUCER CAN SELL THIS URANIUM AT A PRICE LOWER THAN ITS PRICE TO DOMESTIC USERS.

-----D. FUTURE CONTRACTS FOR FOREIGN SALES ARE LIMITED
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TO A FIRM TEN YEARS WITH AN ANNUAL PRICE RENEGOTIATION AND WITH A CONTINGENT APPROVAL POSSIBLE FOR AN ADDITIONAL FIVE YEARS.

-----E. PRIOR TO MAKING OFFERS OF URANIUM SUPPLY THE EXPORTER MUST ASCERTAIN FROM THE DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE (ITC) AND THE AECB THAT THERE ARE NO SAFEGUARDS IMPEDIMENTS.

-----F. URANIUM PRODUCERS ARE ALSO REQUIRED TO SUBMIT THEIR SALES CONTRACTS FOR URANIUM EXPORTS TO THE ATOMIC ENERGY CONTROL BOARD (AECB) FOR EXAMINATION PRIOR TO BEING GRANTED A LICENSE TO EXPORT. THE BOARD EXAMINES THE PROPOSED CONTRACT TO ASSURE THAT THE TERMS OF D. ABOVE ARE MET, AND THAT THE PRICE BEING OFFERED IS NO LOWER THAN THE PRICE TO A DOMESTIC UTILITY.

-----G. IF A URANIUM PRODUCER'S MINING OPERATIONS ARE WITHIN FIVE YEARS OF BEING EXHAUSTED AND HE CANNOT SELL HIS PRODUCT DOMESTICALLY, HE CAN APPLY FOR AN EXEMPTION TO THE DOMESTIC RESERVE REQUIREMENT AND MAY BE PERMITTED TO EXPORT ALL OF HIS URANIUM.

7. COMMENT: THE CURRENT LARGE CONTRACT BETWEEN ONTARIO HYDRO AND THE DENISON AND PRESTON MINING COMPANIES IS EXPECTED TO REQUIRE ABOUT 100,000 TONS OUT OF ONTARIO'S ADJUSTED RESERVES OF ABOUT 400,000 TONS; WHICH LEAVES 300,000 TONS FOR OTHER USERS. SINCE ONTARIO HYDRO IS BY FAR THE LARGEST DOMESTIC URANIUM CONSUMER, A SIGNIFICANT SHARE OF ONTARIO'S URANIUM RESOURCES SHOULD BE AVAILABLE FOR EXPORT.

IN 1976 CANADA PRODUCED SOME 21 PERCENT OF THE FREE

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WORLD'S OUTPUT OF URANIUM, AND AS OF JANUARY 1, 1977, APPROVED EXPORTS TOTALLED SOME 95,000 TONS OF U308 (OF WHICH SOME 2500 TONS ARE COMMITMENTS FROM THE GOC'S GENERAL STOCKPILE).

ONLY ABOUT 9 PERCENT OF CANADA'S OUTPUT WAS REQUIRED FOR ITS DOMESTIC PROGRAM IN 1977. HOWEVER, THIS REQUIREMENT WILL INCREASE AND IS EXPECTED TO REACH ABOUT 19 PERCENT OF ITS OUTPUT BY 1985. IN ANY CASE, IT WAS STATED BY THE EM&R EXPERTS THAT EVEN WITH CURRENT COMMITMENTS AND PROJECTED DOMESTIC REQUIREMENTS, HALF OF CANADA'S ADJUSTED URANIUM RESERVES OF ABOUT 450,000 TONS OF U308 COULD BE EXPORTED. THIS, OF COURSE, WOULD DEPEND UPON THE CAPITAL BEING AVAILABLE TO DEVELOP THE MINES, A WORLD PRICE WHICH IS HIGH ENOUGH TO MAKE SUCH DEVELOPMENT ECONOMICALLY FEASIBLE, AND A POLITICAL ENVIRONMENT IN CANADA WHICH WOULD PERMIT THE EXPORT OF SUCH MAJOR FRACTION OF A NON-RENEWABLE ENERGY RESOURCE. ENDERS

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